



**Testimony of Delaney McKinley, MMA Director of Human Resource Policy  
In Opposition to SB 1359  
Senate Appropriations Committee  
November 29, 2012**

Thank you Mr. Chair and Members of the Committee. My name is Delaney McKinley and I am director of human resource policy at the Michigan Manufacturers Association. MMA represents about 2,500 members, directly employing over 500,000 Michigan residents.

Manufacturers are one of the largest payers of private insurance and group health plans. 91% of Manufacturers offer health care benefits to their employees compared to 71% of all other industries. I would submit that this is a good thing; something we want to continue and encourage.

SB 1359 would vastly expand the Health Insurance Claims (HICA) Tax from a one percent tax on paid health insurance claims to an entirely uncapped and unpredictable variable rate tax, whereby unelected Treasury officials will determine the tax rate in order to collect enough revenue to meet the Medicaid "base need" plus the medical rate of inflation. SB 1359 also repeals the proportional credit/refund that allows healthcare consumers to recoup their tax dollars if the tax over-collects.

It should come as no surprise to members of the committee that job providers are already struggling to continue to provide health insurance coverage to workers in the face of dramatic increases in health care costs and an apparently endless line of government taxes and regulations. According to a recently released study by Mercer, Inc., Michigan's health benefit costs rose 5.4% in 2012 to \$10,122 per employee. Of course there has been the 1% Claims Tax, which has been a multi-million dollar increase in health care costs for many employers. And at the Federal level, the "Affordable Care Act" (ACA) will soon assess new fees and taxes on job providers, including the Patient-Centered Outcomes Research Institute (PCORI) fee and the Transitional Reassessment Program tax.

So the reality is that with health care costs sky rocketing, businesses have limited options. They can 1.) Take the additional costs out of other areas, like merit pay increases, resulting in reduced productivity and competitiveness; 2.) They can find someone to share the burden with (The Department earlier cited this as one of the primary reasons that the Claims Tax has not collected the revenue that was anticipated – as employers share costs with employees, the taxable base of the Claims tax shrinks); or 3.) They can say "Hey I can't afford to do this anymore," and drop coverage altogether. All of these things are happening in Michigan today:

- According to the Mercer, Inc., study, 61 percent of Michigan employers will be forced to shift costs to employees to compensate for rising health care costs.
- According to the Kaiser Family Foundation Employer Health Benefits 2012 Annual Survey, 34% of workers are in high-deductible plans. Over the last five years, the percentage of workers in a high-deductible plan has increased from 12% to 34%. 49% of small businesses are in large deductible plans.
- Today only 39% of small businesses offer health insurance. That's a 5.4% drop in the last two years.

All of these actions create diminishing returns for the state budget. As employers shift costs to employees and drop coverage altogether, the base of the Claims Tax shrinks.

Let's not forget the impact this tax will have on Michigan's business climate and our competitive place in the nation and in the global economy. No other state assesses a Claims Tax at the rate that Michigan currently does – and the competitive disadvantage only balloons if a variable rate is imposed.

If there is one point I'd like to leave you with and this is a point that I think should be very closely examined by this committee: Whether you're measuring the success of this tax increase by its impact on the competitiveness of our state business climate or if you just need to get \$400 million in revenue... By any measure, the proposal before you today is not going to work. We cannot afford to get this wrong again. We need to go back to the drawing board to find viable options for stable funding for this important program.

We urge the committee members to reject this untenable proposal and go back to the drawing board to find a stable, predictable revenue stream that does not punish the employers that continue to provide healthcare to Michigan workers. Thank you for the opportunity to comment. I hope that you will not hesitate to contact me should you wish to further discuss this or any other matter.